



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 2, 2013

Contact: Andy Nielsen
515/281-5834

The Office of Auditor of State today released an audit report on the City of Atlantic, Iowa.

The City's receipts totaled \$16,272,762 for the year ended June 30, 2012, a 7.3% increase over the prior year. The receipts included \$3,232,332 in property tax, \$86,256 from tax increment financing, \$1,791,048 from charges for service, \$1,488,034 from operating grants, contributions and restricted interest, \$672,533 from capital grants, contributions and restricted interest, \$812,825 from local option sales tax, \$61,665 from hotel/motel tax, \$5,408 from unrestricted interest on investments, \$7,721,310 from general obligation and sewer revenue bond proceeds and \$401,351 from other general receipts.

Disbursements for the year totaled \$19,589,512, a 76.6% increase over the prior year, and included \$3,508,919 for capital projects, \$1,684,270 for public safety, \$1,289,596 for debt service, \$1,251,665 for public works and \$655,000 for refunding debt. Also, disbursements for business type activities totaled \$9,574,448. The significant increase in disbursements is primarily due to the \$8.9 million of construction costs for the wastewater treatment plant and the City refunding \$655,000 of bonds.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1220-0128-B00F.pdf>.

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CITY OF ATLANTIC
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2012

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City of Atlantic

Officials

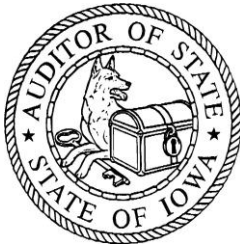
(Before January 1, 2012)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David R. Jones	Mayor	Jan 2014
Dana Halder	Council Member	Jan 2012
Linda Hartkopf	Council Member	Jan 2012
Kern Miller	Council Member	Jan 2012
Pat Simmons	Council Member	Jan 2012
Steve Livengood	Council Member	Jan 2014
Shawn Shouse	Council Member	Jan 2014
Kathy Somers	Council Member	Jan 2014
Doug Harris	Administrator	Indefinite
Deb Wheatley Field	Clerk/Treasurer	Jan 2012
David L. Wiederstein	Attorney	Jan 2012

(After January 1, 2012)

<u>Name</u>	<u>Title</u>	<u>Expires</u>
David R. Jones	Mayor	Jan 2014
Steve Livengood	Council Member	Jan 2014
Shawn Shouse	Council Member	Jan 2014
Kathy Somers	Council Member	Jan 2014
Dana Halder	Council Member	Jan 2016
Linda Hartkopf	Council Member	Jan 2016
Ashley Hayes	Council Member	Jan 2016
Chris Jimerson	Council Member	Jan 2016
Doug Harris	Administrator	Indefinite
Deb Wheatley Field	Clerk/Treasurer	Jan 2014
David L. Wiederstein	Attorney	Jan 2014

City of Atlantic



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Atlantic, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Atlantic's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the condensed financial information included in Note 11 for the discretely presented component unit, is based on the report of the other auditor.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the report of the other auditor provide a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.


As described in Note 11, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements of the component unit for the year ended December 31, 2011 have been audited by another auditor and are available from the component unit. The report of the other auditor, dated March 2, 2012, expressed an unqualified opinion on the financial statements.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Atlantic as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 17, 2013 on our consideration of the City of Atlantic's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Atlantic. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Atlantic's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 36 through 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 17, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Atlantic provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 17.1%, or approximately \$2,335,000, in fiscal year 2012 from fiscal year 2011. Capital grants, contributions and restricted interest decreased approximately \$1,932,000 and bond and note proceeds decreased approximately \$595,000.
- Disbursements of the City's governmental activities decreased 4.8%, or approximately \$501,000, in fiscal year 2012 from fiscal year 2011. Capital projects disbursements increased approximately \$774,000 while disbursements for redeeming sewer notes and refunding general obligation notes decreased approximately \$773,000 and \$909,000, respectively.
- The City's total cash basis net assets decreased 44%, or approximately \$3,317,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$1,562,000 and the assets of the business type activities decreased approximately \$4,879,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds, the Internal Service Funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the storm water and the sanitary sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Storm Water and Sewer Funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

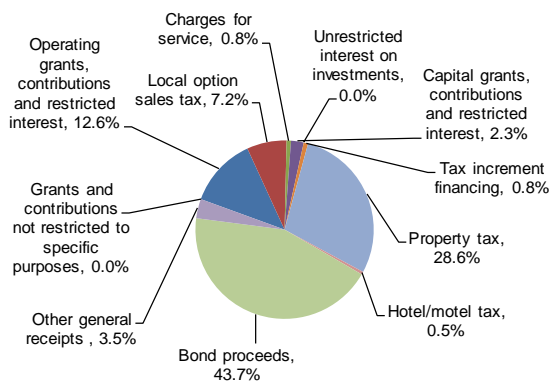
Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

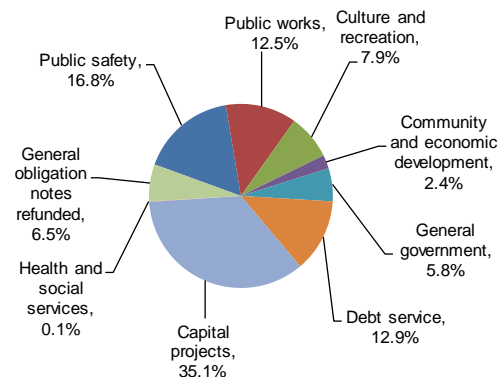
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$5.865 million to approximately \$7.427 million, due primarily to bond proceeds received but not disbursed as of year-end. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 85	112
Operating grants, contributions and restricted interest	1,426	1,679
Capital grants, contributions and restricted interest	263	2,195
General receipts:		
Property tax	3,232	2,971
Tax increment financing	86	123
Local option sales tax	813	724
Hotel/motel tax	62	8
Unrestricted interest on investments	5	9
Bond proceeds	4,924	5,519
Other general receipts	401	292
Total receipts	11,297	13,632
Disbursements:		
Public safety	1,684	1,584
Public works	1,252	1,278
Health and social services	12	10
Culture and recreation	790	737
Community and economic development	245	295
General government	578	527
Debt service	1,290	1,013
Capital projects	3,509	2,735
Sewer revenue note redeemed	-	773
General obligation notes refunded	655	1,564
Total disbursements	10,015	10,516
Change in cash basis net assets before transfers	1,282	3,116
Transfers	280	344
Change in cash basis net assets	1,562	3,460
Cash basis net assets beginning of year	5,865	2,405
Cash basis net assets end of year	\$ 7,427	5,865

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 17.1%, or approximately \$2,335,000. The total cost of all programs and services decreased approximately \$501,000, or 4.8%, with no new programs added this year. The significant decrease in receipts was primarily the result of a reduced amount of capital grants received compared to the prior year.

The City increased property tax rates for fiscal year 2012 an average of 5.3%. This increase in property tax rates increased the City's property tax receipts approximately \$261,000 in fiscal year 2012. Based on increases in the total assessed valuation and property tax rates, property tax receipts are budgeted to increase approximately \$183,000 next year.

The cost of all governmental activities this year was approximately \$10.02 million compared to approximately \$10.52 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only approximately \$7.6 million because some of the cost was paid by those directly benefited from the programs (\$84,700) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,688,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2012 from approximately \$3,986,000 to approximately \$1,774,000, principally due to receiving grant proceeds in fiscal year 2011 to complete road projects and for starting the wastewater treatment plant project.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Storm water	\$ 189	191
Sewer	1,517	1,322
Operating grants, contributions and restricted interest	62	20
Capital grants, contributions and restricted interest	409	-
Bond proceeds	2,797	-
Total receipts	4,974	1,533
Disbursements:		
Storm water	88	39
Sewer	9,486	535
Total disbursements	9,574	574
Change in cash basis net assets before transfers	(4,600)	959
Transfers	(280)	(344)
Change in cash basis net assets	(4,880)	615
Cash basis net assets beginning of year	1,680	1,065
Cash basis net assets end of year	\$ (3,200)	1,680

Total business type activities receipts for the fiscal year were approximately \$4,974,000 compared to approximately \$1,533,000 last year. This increase was due primarily to sewer revenue bond proceeds of approximately \$2,797,000. Total disbursements for the fiscal year increased to approximately \$9,574,000 due to construction costs for the wastewater treatment plant project, which had approximately \$8.89 million of disbursements for fiscal year 2012. The cash balance decreased approximately \$4.9 million from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Atlantic completed the year, its governmental funds reported a combined fund balance of approximately \$7,152,000, an increase of approximately \$1,592,000 above last year's total of approximately \$5,560,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$346,973 from the prior year to \$1,736,988. Approximately \$46,000 of this increase was due to the increase in property tax collected and \$231,000 was due to an increase in operating transfers in.
- The Special Revenue, Road Use Tax Fund cash balance increased \$22,150 from the prior year to \$458,752. The City intends to use this money to continue funding street department operations, street maintenance programs and replacement of equipment.
- The Special Revenue, Employee Benefits Fund cash balance increased \$21,070 to \$110,012. The City intends to use this money to continue funding employee benefits.
- The Special Revenue, Local Option Sales Tax Fund accounts for revenue from the tax authorized by referendum and used for capital improvements, economic development and recreation. This cash balance increased \$25,194 from the prior year to \$152,124.
- The Debt Service Fund cash balance increased \$70,482 over the prior year to \$138,959 at the end of the fiscal year.
- The Capital Projects Fund cash balance increased \$1,116,074 to \$4,331,302 at the end of the fiscal year. The increase was due primarily to the issuance of \$4.95 million of general obligation corporate purpose bonds which was offset by a \$1,665,510 reduction in IJOBS grant funding. The bond proceeds will be used to pay for improvements to streets and City parks and improvements and repairs to City Hall.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Storm Water Fund was established to accumulate funds to be used for storm water management and flood protection capital projects. The cash balance decreased \$17,357 from the prior year to \$426,166.
- The Enterprise, Sewer Fund cash balance decreased \$4,858,112 to a year end deficit of (\$3,650,899). The decrease is primarily due to paying the construction costs for the wastewater treatment plant prior to drawing available State Revolving Fund loan funds from the Iowa Finance Authority.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 21, 2012 and resulted in an increase of \$5,134,700 in budgeted operating disbursements, which included an increase of \$799,200 in budgeted debt service disbursements related to the calling of bonds with higher interest rates, an increase in budgeted receipts due to issuing bonds with lower interest rates for the refunding and reclassifying \$4.9 million of wastewater treatment plant improvement project budgeted disbursements from the capital projects function to the business type activities function, as well as increasing capital projects budgeted expenditures by \$4.2 million for the proceeds of a planned general obligation corporate purpose bond issue. The second amendment was approved on May 16, 2012 and resulted in an increase of \$396,850 in budgeted operating disbursements related to wastewater treatment plant improvements. The increase in disbursements was offset by an increase in receipts from miscellaneous reimbursements.

The City's receipts were \$393,680 more than budgeted. This was primarily due to unanticipated intergovernmental receipts for the new wastewater treatment plant.

With the budget amendments, total disbursements were \$5,946,659 less than the amended budget. Actual disbursements for the capital projects and the business type activities functions were \$3,892,567 and \$864,231, respectively, less than the amended budget. This was primarily due to slower than anticipated progress on the construction of the wastewater treatment plant and other street improvements.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$13,527,508 of bonds, notes and other long-term debt outstanding, compared to \$7,292,824 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2012	2011
General obligation notes/bonds	\$ 8,930,000	5,375,000
Tax increment financing (TIF) revenue bonds	119,500	170,500
Local option sales and services tax revenue bonds	790,653	857,154
Sewer revenue bonds	3,687,355	890,170
Total	\$ 13,527,508	7,292,824

Debt increased as a result of issuing general obligation corporate purpose and refunding bonds of \$4,950,000 and an additional \$2,797,185 of sewer revenue bonds during the year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all property within the City's corporate limits. The City's outstanding general obligation notes/bonds, TIF and local option sales and services tax (LOST) revenue debt of \$10,121,511 (including \$281,358 of development and rebate agreements) is below its constitutional debt limit of approximately \$15,517,142. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Atlantic's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$13.6 million, a decrease of 46% from the final fiscal year 2012 budget. Budgeted disbursements are expected to decrease approximately \$10,000,000, or 39%. The City has added no major new programs or initiatives to the fiscal year 2013 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$584,000 by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Wheatley Field, City Clerk, 23 East 4th Street, City of Atlantic, Iowa.

Basic Financial Statements

City of Atlantic

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Public safety	\$ 1,684,270	19,672	130,437	-
Public works	1,251,665	-	1,012,561	-
Health and social services	12,543	-	-	-
Culture and recreation	789,602	40,591	186,832	-
Community and economic development	245,333	950	21,974	-
General government	578,136	23,487	7,298	-
Debt service	1,289,596	-	66,332	-
Capital projects	3,508,919	-	-	262,983
Total governmental activities	9,360,064	84,700	1,425,434	262,983
Business type activities:				
Storm water	88,046	189,177	2,925	-
Sewer	9,486,402	1,517,171	59,675	409,550
Total business type activities	9,574,448	1,706,348	62,600	409,550
Total	\$ 18,934,512	1,791,048	1,488,034	672,533
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Bond proceeds, net of \$84,150 of discount and \$58,275 of premium				
Sewer revenue bond proceeds				
General obligation bonds refunded				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Debt service				
Capital projects				
Tax increment financing				
Local option sales tax				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,534,161)	-	(1,534,161)
(239,104)	-	(239,104)
(12,543)	-	(12,543)
(562,179)	-	(562,179)
(222,409)	-	(222,409)
(547,351)	-	(547,351)
(1,223,264)	-	(1,223,264)
(3,245,936)	-	(3,245,936)
(7,586,947)	-	(7,586,947)
-	104,056	104,056
-	(7,500,006)	(7,500,006)
-	(7,395,950)	(7,395,950)
(7,586,947)	(7,395,950)	(14,982,897)
2,463,586	-	2,463,586
768,746	-	768,746
86,256	-	86,256
812,825	-	812,825
61,665	-	61,665
5,408	-	5,408
4,924,125	-	4,924,125
-	2,797,185	2,797,185
(655,000)	-	(655,000)
401,351	-	401,351
280,385	(280,385)	-
9,149,347	2,516,800	11,666,147
1,562,400	(4,879,150)	(3,316,750)
5,865,138	1,679,412	7,544,550
\$ 7,427,538	(3,199,738)	4,227,800
\$ 458,752	-	458,752
168,959	-	168,959
4,331,302	-	4,331,302
7,966	-	7,966
122,124	-	122,124
325,873	-	325,873
2,012,562	(3,199,738)	(1,187,176)
\$ 7,427,538	(3,199,738)	4,227,800

City of Atlantic

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2012

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 1,626,555	-	672,798	-
Tax increment financing	-	-	-	-
Local option sales tax	180,100	-	-	335,690
Other city tax	173,918	-	9,658	-
Licenses and permits	23,467	-	-	-
Use of money and property	68,321	-	-	750
Intergovernmental	340,211	674,581	-	-
Charges for service	60,848	-	-	-
Miscellaneous	451,977	91,974	65,338	5,838
Total receipts	2,925,397	766,555	747,794	342,278
Disbursements:				
Operating:				
Public safety	1,254,770	-	370,830	-
Public works	350,762	709,405	168,013	15,394
Health and social services	-	-	-	12,543
Culture and recreation	701,903	-	84,663	-
Community and economic development	125,306	-	-	82,705
General government	450,203	-	103,218	20,123
Debt service	-	-	-	108,099
Capital projects	-	-	-	-
Total disbursements	2,882,944	709,405	726,724	238,864
Excess (deficiency) of receipts over (under) disbursements	42,453	57,150	21,070	103,414
Other financing sources (uses):				
Bond proceeds, net of \$84,150 of discount and \$58,275 of premium	-	-	-	-
General obligation bonds redeemed	-	-	-	-
Sale of real property	63,000	-	-	-
Operating transfers in	358,620	-	-	24,440
Operating transfers out	(117,100)	(35,000)	-	(102,660)
Total other financing sources (uses)	304,520	(35,000)	-	(78,220)
Change in cash balances	346,973	22,150	21,070	25,194
Cash balances beginning of year	1,390,015	436,602	88,942	126,930
Cash balances end of year	\$ 1,736,988	458,752	110,012	152,124
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	458,752	-	-
Debt service	-	-	-	30,000
Capital projects	-	-	-	-
Tax increment financing	-	-	-	-
Local option sales tax	-	-	-	122,124
Other purposes	-	-	110,012	-
Assigned for fire station	115,891	-	-	-
Unassigned	1,621,097	-	-	-
Total cash basis fund balances	\$ 1,736,988	458,752	110,012	152,124

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
757,987	-	41,722	3,099,062
-	-	86,256	86,256
-	297,035	-	812,825
10,759	-	601	194,936
-	-	-	23,467
-	1,694	2,152	72,917
-	233,771	-	1,248,563
-	-	-	60,848
66,332	27,518	-	708,977
835,078	560,018	130,731	6,307,851
-	-	42,748	1,668,348
-	-	-	1,243,574
-	-	-	12,543
-	-	-	786,566
-	-	37,322	245,333
-	-	-	573,544
1,120,831	-	60,666	1,289,596
-	3,508,919	-	3,508,919
1,120,831	3,508,919	140,736	9,328,423
(285,753)	(2,948,901)	(10,005)	(3,020,572)
-	4,924,125	-	4,924,125
(655,000)	-	-	(655,000)
-	-	-	63,000
1,011,235	46,690	-	1,440,985
-	(905,840)	-	(1,160,600)
356,235	4,064,975	-	4,612,510
70,482	1,116,074	(10,005)	1,591,938
68,477	3,215,228	233,832	5,560,026
138,959	4,331,302	223,827	7,151,964
-	-	-	458,752
138,959	-	-	168,959
-	4,331,302	-	4,331,302
-	-	7,966	7,966
-	-	-	122,124
-	-	215,861	325,873
-	-	-	115,891
-	-	-	1,621,097
138,959	4,331,302	-	7,151,964

City of Atlantic

City of Atlantic

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2012

Total governmental funds cash balances (page 17) \$ 7,151,964

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Funds are used by management to charge the costs of payroll and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Funds is included in governmental activities in the Statement of Activities and Net Assets.

275,574

Cash basis net assets of governmental activities (page 15)

\$ 7,427,538

Change in cash balances (page 17)

\$ 1,591,938

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Funds are used by management to charge the costs of payroll and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Funds is reported with governmental activities.

(29,538)

Change in cash basis net assets of governmental activities (page 15)

\$ 1,562,400

See notes to financial statements.

Exhibit D

City of Atlantic

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise			Internal Service
	Storm Water	Sewer	Total	
Operating receipts:				
Charges for service	\$ 189,177	1,517,171	1,706,348	2,383,217
Miscellaneous	-	55,830	55,830	-
Total operating receipts	189,177	1,573,001	1,762,178	2,383,217
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	1,040,912
Public works	-	-	-	429,592
Culture and recreation	-	-	-	321,946
General government	-	-	-	346,351
Business type activities	88,046	511,756	599,802	278,184
Total operating disbursements	88,046	511,756	599,802	2,416,985
Excess (deficiency) of operating receipts over (under) operating disbursements	101,131	1,061,245	1,162,376	(33,768)
Non-operating receipts (disbursements):				
Bond proceeds	-	2,797,185	2,797,185	-
IJOBS grant	-	409,550	409,550	-
Interest on investments	2,925	3,583	6,508	549
Debt service	-	(81,789)	(81,789)	-
Capital projects	-	(8,888,914)	(8,888,914)	-
Total non-operating receipts (disbursements)	2,925	(5,760,385)	(5,757,460)	549
Excess (deficiency) of receipts over (under) disbursements	104,056	(4,699,140)	(4,595,084)	(33,219)
Operating transfers out	(121,413)	(158,972)	(280,385)	-
Change in cash balances	(17,357)	(4,858,112)	(4,875,469)	(33,219)
Cash balances beginning of year	443,523	1,207,213	1,650,736	333,788
Cash balances end of year	\$ 426,166	(3,650,899)	(3,224,733)	300,569
Cash Basis Fund Balances				
Unrestricted	\$ 426,166	(3,650,899)	(3,224,733)	300,569

See notes to financial statements.

City of Atlantic

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds

As of and for the year ended June 30, 2012

Total enterprise funds cash balances (page 20) \$ (3,224,733)

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of payroll and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Funds is included in business type activities in the Statement of Activities and Net Assets.

24,995

Cash basis net assets of business type activities (page 15) \$ (3,199,738)

Change in cash balances (page 20) \$ (4,875,469)

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of payroll and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Funds is reported with business type activities.

(3,681)

Change in cash basis net assets of business type activities (page 15) \$ (4,879,150)

See notes to financial statements.

City of Atlantic
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Atlantic is a political subdivision of the State of Iowa located in Cass County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides storm water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Atlantic has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Atlantic (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Atlantic Municipal Utilities (Utility), established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Utility is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 11 was prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements for the year ended December 31, 2011 can be obtained from the Utility's administrative office, P.O. Box 517, 15 West Third Street, Atlantic, Iowa 50022.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating

governments. City officials are members of or appoint representatives to the following boards and commissions: Cass County Assessor's Conference Board, Cass County Environmental Control Agency, Cass County Emergency Management Commission, Cass County E911 Joint Service Board, SWIPCO – Regional Planning Commission and Cass County Public Safety Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and Internal Service Funds are aggregated and reported as nonmajor governmental funds and Internal Service Funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax receipts used for payment of employee benefits.

The Local Option Sales Tax Fund is used to account for local option sales tax received and its use for purposes designated on the ballot which authorized the tax.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Enterprise, Storm Water Fund accumulates funds to be used for storm water management and flood protection.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) **Bonds Payable**

Annual debt service requirements to maturity for general obligation bonds, tax increment financing (TIF) revenue bonds and local option sales and services tax revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Tax Increment Financing (TIF) Revenue Bonds		Local Option Sales and Services Tax Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 970,000	221,446	27,500	6,871	73,493	38,206	1,070,993	266,523
2014	665,000	189,374	29,000	5,290	45,580	34,424	739,580	229,088
2015	650,000	176,894	30,500	3,623	47,768	32,236	728,268	212,753
2016	575,000	162,319	32,500	1,869	50,061	29,943	657,561	194,131
2017	555,000	148,541	-	-	52,464	27,540	607,464	176,081
2018-2022	2,760,000	566,109	-	-	302,599	97,421	3,062,599	663,530
2023-2027	2,755,000	225,303	-	-	218,688	21,322	2,973,688	246,625
Total	\$ 8,930,000	1,689,986	119,500	17,653	790,653	281,092	9,840,153	1,988,731

Tax Increment Financing (TIF) Revenue Bonds – These were issued for the purpose of defraying a portion of the cost of carrying out urban renewal projects of the City. The bonds are payable solely from the income and proceeds of the individual urban renewal tax increment financing funds and the property tax to be paid into the funds in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the tax increment financing revenue bonds are to be expended only for purposes consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

Local Option Sales and Services Tax Revenue Bonds – The City has pledged future local option sales and services tax receipts, net of specified allocations and disbursements, to repay \$300,000 and \$1,000,000 of local option sales and services tax revenue bonds issued in September 1997 and March 2004, respectively. Proceeds from the bonds provided financing for the cost of street improvements and the recreation and wellness center. The bonds are payable solely from the proceeds of the local option sales and services tax received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa and are payable through 2013 and 2025, respectively. Annual principal and interest payments on the bonds are expected to require approximately 15% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,071,745. For the current year, principal and interest paid and total collections were \$108,099 and \$812,825, respectively. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the local option sales and services tax revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future local option sales and services tax received by the City and the bond holders hold a lien on the future revenues received.
- (b) A local option sales and services tax revenue bond sinking account shall be established to account for 15% of the local option sales and services tax collected.
- (c) Sufficient quarterly deposits shall be made to a sinking account for the purpose of making the bond principal and interest payments when due.
- (d) Additional quarterly deposits of \$2,500 shall be made to a reserve account until \$30,000 has been accumulated. This account is restricted for the purpose of correcting any deficiencies in the sinking account.

During the year ended June 30, 2012, the City was in compliance with the bond provisions.

General Obligation Refunding Bonds - On March 28, 2012, the City issued \$4,950,000 of general obligation corporate purpose and refunding bonds for the purpose of financing construction of improvements to streets, storm sewers, city parks and the City Hall, the acquisition of equipment for the police, fire and street departments, the acquisition of computer software, equipment and furniture for use at City Hall, making a grant to Iowa Western Community College for building improvements and refunding the \$655,000 balance of the City's general corporate purpose bonds, Series 2007. The bonds bear interest at 1.10% to 2.50% per annum and mature June 1, 2027.

For the refunding portion of the bond issuance, the City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$45,000.

Sewer Revenue Bonds – On June 24, 2011, the City entered into a loan agreement with the Iowa Finance Authority (IFA) and the Iowa Department of Natural Resources (DNR) through the State Revolving Fund Loan program for the issuance of up to \$11,717,000 of sewer revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the costs of constructing improvements and extensions to the municipal sanitary sewer system. The City will draw down funds from the IFA upon request to reimburse the City for costs as they are incurred. During the year ended June 30, 2011, \$890,170 of proceeds were constructively received and used to refund the outstanding balance of a sewer revenue note and pay the 1% initiation fee to the Iowa Finance Authority. During the year ended June 30, 2012, \$2,797,185 of proceeds were received and used to finance the wastewater treatment plant construction.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bonds. The bonds are payable solely from sewer customer net receipts. The total amount of principal and interest remaining to be paid on the bonds at June 30, 2012 is not available since a final repayment schedule has not been adopted.

The resolution providing for the issuance of the sewer revenue bonds issued under the loan agreement includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments of principal and interest on the bonds falling due in the same year.

The City has made transfers to the Debt Service Fund for the purpose of making the bond principal and interest payments when due rather than establishing a sewer revenue bond sinking account within the Enterprise, Sewer Fund as required by the bond resolution.

General Obligation Corporate Purpose Loan – The City entered into a general obligation equipment note agreement with Atlantic Municipal Utilities in March 2011. The City received and repaid \$221,700 during the year.

(4) Pension and Retirement Benefits

IPERS – The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$148,760, \$128,455 and \$124,286, respectively, equal to the required contributions for each year.

Chapter 410 Police and Fire Pension – Chapter 410 of the Code of Iowa creates a retirement system for police officers and fire fighters of any City qualified to participate under this Chapter. Any duly appointed member of the police and fire departments whose appointment occurred before March 2, 1934 or police and fire fighters who had been making payments of membership fees and assessments prior to July 1, 1971 may be a member of the system. The pension plan is accounted for by the City in the Special Revenue, Police and Fire Pension Funds.

The plan is administered by the Police Pension Board of Trustees and the Fire Pension Board of Trustees and provides retirement, disability and death benefits. The benefits are established under state statute and provide for full retirement benefits at age 50 with 22 years or more of service. Full benefits are equal to fifty percent of the monthly salary at retirement or disability and twenty-five percent of the monthly salary at death.

There are no active participants. Two retirees and certain beneficiaries are currently receiving benefits from the plan. The unfunded past service liability has not been determined.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 35 active and 3 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members ranged from \$504 to \$624 for single coverage and \$1,231 to \$1,476 for family coverage, depending on the plan chosen. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$436,631 and plan members eligible for benefits contributed \$58,119 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 97,000
Compensatory time	31,000
Total	<u>\$ 128,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 35,000
	Local Option Sales Tax	78,220
	Capital Projects	146,400
	Enterprise:	
	Storm Water	30,000
	Sewer	69,000
		<u>358,620</u>
Special Revenue:		
Local Option Sales Tax	General	20,000
	Capital Projects	4,440
		<u>24,440</u>
Debt Service	General	74,850
	Capital Projects	755,000
	Enterprise:	
	Storm Water	91,413
	Sewer	89,972
		<u>1,011,235</u>
Capital Projects	General	22,250
	Special Revenue:	
	Local Option Sales Tax	24,440
		<u>46,690</u>
Total		<u>\$ 1,440,985</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$114,237.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsure by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital casualty contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital casualty contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and airport liability in the amount of \$1,000,000 and \$5,000,000, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Development Agreements

The City has entered into four development agreements to assist in urban renewal projects.

The City agreed to rebate 100% of the incremental property tax paid by the developer, minus the amount of debt service tax levied by the taxing jurisdictions and the physical plant and equipment tax levied by school districts, in exchange for construction of infrastructure by the developer. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years. The total amount rebated is not to exceed the lesser of actual cost of the public improvements paid for by the developer or \$186,000, plus interest. During the year ended June 30, 2012, the City paid the developer \$18,787 of principal. The outstanding principal balance of the agreement at June 30, 2012 is \$95,358.

The City agreed to rebate 100% of the incremental property tax paid by the developer in exchange for the construction of a furniture store. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of five years beginning December 1, 2008 and semiannually thereafter until June 1, 2013. The total amount rebated shall not exceed \$50,000. During the year ended June 30, 2012, the City paid the developer \$10,000 of principal. The outstanding principal balance of the agreement at June 30, 2012 is \$5,000.

The City entered into an agreement with a developer regarding certain property on which the developer is constructing a residential subdivision. A portion of the incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years, with the total amount rebated not to exceed \$240,000, including interest. The agreement includes two phases. The first phase calls for the City to provide the developer a grant not to exceed \$100,000. The second phase allows for a rebate of incremental property tax, not to exceed \$140,000, including interest. The grant has been disbursed and the outstanding principal balance of the rebate agreement at June 30, 2012 is \$140,000.

The City entered into a development agreement on June 15, 2011 to assist an urban renewal project. The agreement requires the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of a hotel. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of nine years beginning June 1, 2014 and annually thereafter until June 1, 2022. The total amount rebated shall not exceed \$41,000. In addition, the agreement provided the developer a \$125,000 grant. At June 30, 2012, the grant has been disbursed and the outstanding principal balance of the rebate agreement is \$41,000.

(10) Employee Health Insurance Plan

The City's Internal Service, Medical Benefit Self Insurance Fund was established to account for the partial self funding of the City's health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Paradigm Benefits. The agreement is subject to automatic renewal provisions. The City assumes liability for claims up to the individual stop loss limitation of \$40,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Internal Service, Medical Benefit Self Insurance Fund are recorded as disbursements from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Paradigm Benefits from the City's Internal Service, Medical Benefit Self Insurance Fund. The City's contribution to the fund for the year ended June 30, 2012 was \$436,631.

(11) Atlantic Municipal Utilities

The Atlantic Municipal Utilities (Utility) provides water and electric services to the City and its residents. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. The following is the condensed financial information for the Utility for the year ended December 31, 2011.

Condensed Statements of Net Assets		
	Electric Department	Water Department
Assets		
Current assets	\$ 2,689,333	638,245
Capital assets, net of accumulated depreciation	22,558,923	4,291,403
Other	4,424,961	783,577
Total assets	29,673,217	5,713,225
Liabilities		
Current liabilities	1,491,864	654,704
Other liabilities	6,345,000	930,855
Total liabilities	7,836,864	1,585,559
Net Assets		
Invested in capital assets, net of related debt	15,767,188	3,132,468
Restricted - expendable	1,460,931	3,150
Contributions in aid of construction	-	1,052,959
Unrestricted	4,608,234	(60,911)
Total net assets	\$ 21,836,353	4,127,666

Condensed Statements of Revenues Expenses and Changes in Net Assets		
	Electric Department	Water Department
Operating revenues:		
Electricity sales	\$ 7,663,316	-
Water sales	-	1,145,074
Other	363,792	19,912
Total operating revenues	8,027,108	1,164,986
Operating expenses:		
Production - power/water costs	3,714,297	183,806
Transmission and distribution	1,507,705	214,800
General and administrative	2,864,566	599,552
Total operating expenses	8,086,568	998,158
Operating income (loss)	(59,460)	166,828
Non-operating revenues (expenses):		
Interest income	56,473	4,759
Interest expense	(279,586)	(29,064)
Other non-operating expenses	(7,514)	(2,265)
Total non-operating revenues (expenses)	(230,627)	(26,570)
Net income (loss)	\$ (290,087)	140,258

Condensed Statements of Changes in Net Assets		
	Electric Department	Water Department
Net assets beginning of year	\$ 22,126,440	3,704,801
Net income (loss)	(290,087)	140,258
Contributions in aid of construction	-	282,607
Net assets end of year	<u>\$ 21,836,353</u>	<u>4,127,666</u>

Condensed Statements of Cash Flows		
	Electric Department	Water Department
Cash provided (used) by:		
Operating activities	\$ 1,392,891	357,431
Non-capital financing activities	3,775	(255)
Capital and related financing activities	(1,791,243)	(481,818)
Investing activities	1,198,174	(68,573)
Net increase (decrease) in cash	<u>803,597</u>	<u>(193,215)</u>
Cash beginning of year	<u>1,136,054</u>	<u>777,432</u>
Cash end of year	<u>\$ 1,939,651</u>	<u>584,217</u>

(12) Deficit Balance

The Enterprise, Sewer Fund had a deficit balance of \$3,650,899 at June 30, 2012. The deficit balance was a result of project costs incurred prior to the availability of funds. The deficit will be eliminated by drawing loan funds from the State Revolving Fund.

(13) Construction Commitments

The City entered into construction contracts for the construction of a new wastewater treatment plant and for various construction and street improvements during the year ended June 30, 2012. The unpaid contract balances at June 30, 2012 total \$4,889,424.

City of Atlantic

Other Information

City of Atlantic

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 3,099,062	-	-
Tax increment financing	86,256	-	-
Other city tax	1,007,761	-	-
Licenses and permits	26,767	-	-
Use of money and property	72,917	7,056	549
Intergovernmental	1,248,563	409,551	-
Charges for service	60,848	4,089,565	2,383,217
Miscellaneous	705,677	55,830	-
Total receipts	6,307,851	4,562,002	2,383,766
Disbursements:			
Public safety	1,668,348	1,040,912	1,040,912
Public works	1,243,574	429,592	429,592
Health and social services	12,543	-	-
Culture and recreation	786,566	321,946	321,946
Community and economic development	245,333	-	-
General government	573,544	346,351	346,351
Debt service	1,289,596	-	-
Capital projects	3,508,919	-	-
Business type activities	-	9,848,689	278,184
Total disbursements	9,328,423	11,987,490	2,416,985
Excess (deficiency) of receipts over (under) disbursements	(3,020,572)	(7,425,488)	(33,219)
Other financing sources (uses), net	4,612,510	2,516,800	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,591,938	(4,908,688)	(33,219)
Balances beginning of year	5,560,026	1,984,524	333,788
Balances end of year	\$ 7,151,964	(2,924,164)	300,569

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
3,099,062	3,088,536	3,088,536	10,526
86,256	100,772	100,772	(14,516)
1,007,761	825,506	914,606	93,155
26,767	37,308	37,308	(10,541)
79,424	58,795	58,795	20,629
1,658,114	1,317,839	1,317,839	340,275
1,767,196	1,726,946	1,726,946	40,250
761,507	664,605	847,605	(86,098)
8,486,087	7,820,307	8,092,407	393,680
1,668,348	1,816,261	1,816,261	147,913
1,243,574	1,360,956	1,405,956	162,382
12,543	13,000	13,000	457
786,566	759,177	844,177	57,611
245,333	207,062	250,262	4,929
573,544	589,763	589,763	16,219
1,289,596	1,290,746	2,089,946	800,350
3,508,919	12,316,186	7,401,486	3,892,567
9,570,505	960,886	10,434,736	864,231
18,898,928	19,314,037	24,845,587	5,946,659
(10,412,841)	(11,493,730)	(16,753,180)	6,340,339
7,129,310	11,989,886	17,249,336	(10,120,026)
(3,283,531)	496,156	496,156	(3,779,687)
7,210,762	3,568,083	3,568,083	3,642,679
3,927,231	4,064,239	4,064,239	(137,008)

City of Atlantic

Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$5,531,550. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

Supplementary Information

City of Atlantic

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2012

		Special
	Police Pension	Fire Pension
Receipts:		
Property tax	\$ 24,964	16,758
Tax increment financing	-	-
Other city tax	359	242
Use of money and property	-	2,152
Total receipts	25,323	19,152
Disbursements:		
Operating:		
Public safety	25,711	17,037
Community and economic development	-	-
Debt service	-	-
Total disbursements	25,711	17,037
Excess (deficiency) of receipts over (under) disbursements	(388)	2,115
Cash balances beginning of year	1,418	167,100
Cash balances end of year	\$ 1,030	169,215
Cash Basis Fund Balances		
Restricted for:		
Tax increment financing	\$ -	-
Other purposes	1,030	169,215
Total cash basis fund balance	\$ 1,030	169,215

See accompanying independent auditor's report.

Revenue		
Tax Increment Financing	Grant Matching	Total
-	-	41,722
86,256	-	86,256
-	-	601
-	-	2,152
86,256	-	130,731
-	-	42,748
37,322	-	37,322
60,666	-	60,666
97,988	-	140,736
(11,732)	-	(10,005)
19,698	45,616	233,832
(7,710)	45,616	223,827
7,966	-	7,966
-	45,616	215,861
7,966	45,616	223,827

Schedule 2

City of Atlantic

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Internal Service Funds

As of and for the year ended June 30, 2012

	Payroll Revolving	Medical Benefit Self Insurance	Cafeteria Plan	Total
Operating receipts:				
Charges for service:				
Personal service costs from operating funds	\$ 1,933,886	438,449	10,882	2,383,217
Operating disbursements:				
Governmental activities:				
Public safety	826,084	211,677	3,151	1,040,912
Public works	321,605	107,987	-	429,592
Culture and recreation	279,327	39,754	2,865	321,946
General government	281,912	60,174	4,265	346,351
Business type activities	224,958	52,410	816	278,184
Total operating disbursements	1,933,886	472,002	11,097	2,416,985
Deficiency of operating receipts under operating disbursements	-	(33,553)	(215)	(33,768)
Non-operating receipts:				
Interest on investments	-	549	-	549
Change in cash balances	-	(33,004)	(215)	(33,219)
Cash balances beginning of year	-	333,573	215	333,788
Cash balances end of year	\$ -	300,569	-	300,569

See accompanying independent auditor's report.

City of Atlantic

City of Atlantic
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	Nov 15, 2007	3.40-3.90%	\$ 1,560,000
Fire equipment	Jan 15, 2009	4.40-5.20	395,000
Refunding	Oct 26, 2010	0.70-1.85	1,610,000
Corporate purpose	Apr 27, 2011	2.50-3.70	3,100,000
Corporate purpose and refunding	Mar 28, 2012	1.10-2.50	4,950,000
Total			
Tax increment financing (TIF) revenue bonds:			
Country Oaks Addition	Jul 1, 2001	4.30-5.20%	\$ 200,000
North urban renewal business park	Mar 21, 2006	5.75	255,000
Total			
Revenue bonds:			
Local option sales and services tax	Sep 1, 1997	4.70-5.65%	\$ 300,000
Local option sales and services tax	Mar 1, 2004	4.80	1,000,000
Sewer	Jun 24, 2011	3.00 *	11,717,000
Total			
Atlantic Municipal Utilities note agreement:			
General obligation corporate purpose loan	Mar 17, 2010	0.00%	\$ 164,200

* The City is required to annually pay a .25% servicing fee on the outstanding principal balance.
See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
775,000	-	775,000	-	29,088
295,000	-	40,000	255,000	13,055
1,205,000	-	415,000	790,000	13,437
3,100,000	-	165,000	2,935,000	102,351
-	4,950,000	-	4,950,000	-
<u>\$ 5,375,000</u>	<u>4,950,000</u>	<u>1,395,000</u>	<u>8,930,000</u>	<u>157,931</u>
25,000	-	25,000	-	1,300
145,500	-	26,000	119,500	8,366
<u>\$ 170,500</u>	<u>-</u>	<u>51,000</u>	<u>119,500</u>	<u>9,666</u>
55,000	-	25,000	30,000	3,095
802,154	-	41,501	760,653	38,503
890,170	2,797,185	-	3,687,355	52,497
<u>\$ 1,747,324</u>	<u>2,797,185</u>	<u>66,501</u>	<u>4,478,008</u>	<u>94,095</u>
-	221,700	221,700	-	-

City of Atlantic

City of Atlantic

Bond Maturities

June 30, 2012

General Obligation Bonds									
Year Ending June 30,	Fire Equipment		Refunding		Corporate Purpose		Corporate Purpose		Total
	Issued Jan 15, 2009		Issued Oct 26, 2010		Issued Apr 27, 2011		Issued Mar 28, 2012		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	4.30%	\$ 40,000	1.00%	\$ 315,000	2.500%	\$ 100,000	2.00%	\$ 515,000	970,000
2014	4.30	40,000	1.20	280,000	2.500	100,000	2.00	245,000	665,000
2015	4.30	40,000	1.85	130,000	2.500	170,000	2.00	310,000	650,000
2016	4.30	45,000	1.85	65,000	2.625	200,000	2.00	265,000	575,000
2017	4.30	45,000	-	-	2.625	205,000	2.00	305,000	555,000
2018	4.30	45,000	-	-	2.625	210,000	1.10	305,000	560,000
2019	-	-	-	-	2.625	215,000	1.30	340,000	555,000
2020	-	-	-	-	2.850	225,000	1.50	325,000	550,000
2021	-	-	-	-	3.100	230,000	1.70	320,000	550,000
2022	-	-	-	-	3.250	240,000	1.90	305,000	545,000
2023	-	-	-	-	3.400	250,000	2.05	305,000	555,000
2024	-	-	-	-	3.500	255,000	2.20	305,000	560,000
2025	-	-	-	-	3.600	260,000	2.30	325,000	585,000
2026	-	-	-	-	-	275,000	-	325,000	600,000
2027	-	-	-	-	-	-	-	455,000	455,000
Total		\$ 255,000		\$ 790,000		\$ 2,935,000		\$ 4,950,000	8,930,000

Revenue Bonds								
Year Ending June 30,	Tax Increment Financing (TIF) - North Urban Renewal Business Park		Local Option Sales and Services Tax		Local Option Sales and Services Tax		Total	
	Issued Mar 21, 2006		Issued Sep 1, 1997		Issued Mar 1, 2004			
	Interest		Interest		Interest			
	Rates	Amount	Rates	Amount	Rates	Amount		
2013	5.75%	\$ 27,500	5.65%	\$ 30,000	4.80%	\$ 43,493	73,493	
2014	5.75	29,000		-	4.80	45,580	45,580	
2015	5.75	30,500		-	4.80	47,768	47,768	
2016	5.75	32,500		-	4.80	50,061	50,061	
2017		-		-	4.80	52,464	52,464	
2018		-		-	4.80	54,982	54,982	
2019		-		-	4.80	57,621	57,621	
2020		-		-	4.80	60,387	60,387	
2021		-		-	4.80	63,286	63,286	
2022		-		-	4.80	66,323	66,323	
2023		-		-	4.80	69,507	69,507	
2024		-		-	4.80	72,843	72,843	
2025		-		-	4.80	76,338	76,338	
Total	\$	119,500		\$ 30,000		\$ 760,653	790,653	

See accompanying independent auditor's report.

City of Atlantic

Schedule of Receipts By Source and Disbursement By Function -
All Governmental Funds

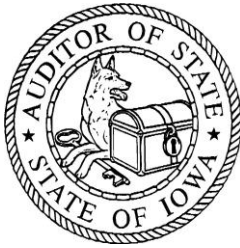
For the Last Ten Years

	2012	2011	2010
Receipts:			
Property tax	\$ 3,099,062	2,841,706	2,610,770
Tax increment financing	86,256	123,056	124,486
Local option sales tax	812,825	724,158	739,713
Other city tax	194,936	137,681	130,595
Licenses and permits	23,467	57,657	55,387
Use of money and property	72,917	56,908	65,980
Intergovernmental	1,248,563	3,392,059	1,739,197
Charges for service	60,848	51,088	50,054
Special assessments	-	-	-
Miscellaneous	708,977	711,878	351,292
Total	\$ 6,307,851	8,096,191	5,867,474
Disbursements:			
Operating:			
Public safety	\$ 1,668,348	1,563,057	1,917,127
Public works	1,243,574	1,270,811	1,444,231
Health and social services	12,543	10,349	9,700
Culture and recreation	786,566	734,533	505,058
Community and economic development	245,333	294,740	206,676
General government	573,544	512,557	514,114
Debt service	1,289,596	1,013,557	1,057,967
Capital projects	3,508,919	2,742,110	1,843,733
Total	\$ 9,328,423	8,141,714	7,498,606

See accompanying independent auditor's report.

2009	2008	2007	2006	2005	2004	2003
2,848,499	2,728,825	2,563,716	2,439,308	2,377,815	2,330,119	2,342,037
109,725	247,992	238,660	158,355	212,041	177,535	178,049
774,698	674,076	726,447	582,645	533,772	616,797	542,490
132,693	130,483	116,357	113,038	119,718	120,772	118,233
46,329	28,908	26,704	29,882	26,464	27,075	19,802
115,318	159,049	171,874	135,334	74,608	61,512	80,735
1,625,672	2,745,491	4,085,700	3,622,092	2,603,514	1,670,043	2,119,797
39,586	37,908	38,493	41,544	33,986	52,715	45,899
-	-	-	729	7,624	10,858	12,909
738,535	276,775	476,955	454,504	497,487	1,305,812	2,135,906
6,431,055	7,029,507	8,444,906	7,577,431	6,487,029	6,373,238	7,595,857
1,929,247	2,128,960	1,951,333	1,965,094	1,468,009	1,199,522	1,199,427
1,516,690	1,460,714	1,131,099	1,194,866	977,604	1,120,237	937,371
11,993	9,998	-	12,385	21,873	2,980	-
539,893	518,574	553,493	423,996	405,853	421,150	430,953
210,406	382,197	256,151	494,547	121,653	103,790	100,569
521,550	505,944	499,782	456,453	429,838	429,845	438,215
1,094,777	1,974,011	1,100,134	1,079,642	1,239,380	2,042,651	1,118,732
1,389,972	2,033,635	3,475,138	3,213,291	2,885,382	3,574,090	4,297,777
7,214,528	9,014,033	8,967,130	8,840,274	7,549,592	8,894,265	8,523,044

City of Atlantic



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Atlantic, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 17, 2013. Our report was modified to include a reference to another auditor. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Another auditor audited the financial statements of the Atlantic Municipal Utilities, a discretely presented component unit, as described in our report on the City of Atlantic's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditor.

Internal Control Over Financial Reporting

The management of the City of Atlantic is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Atlantic's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Atlantic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Atlantic's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Atlantic's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Atlantic's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Atlantic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Atlantic's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Atlantic and other parties to whom the City of Atlantic may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Atlantic during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 17, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although two individuals are involved in the accounting duties of the City, there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:
- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
 - 2) Investments – detailed record keeping, custody and reconciling.
 - 3) Long term debt – recording and reconciling.
 - 4) Receipts – collecting, depositing, posting and reconciling.
 - 5) Accounting system – performing all general accounting functions and having custody of City assets.
 - 6) Disbursements – preparing checks, signing checks and access to accounting records.
 - 7) Petty cash – Custody, reconciling and recording.

In addition, an independent person does not enter payroll rates and testing of the rates is not retained by the City.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Atlantic

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Henningsen, Airport Commissioner, Owner of Henningsen Construction	Hot mix asphalt	\$ 10,488
	Cold patch asphalt	1,993
	Hanger improvements, per bid	30,455
	Street department door	1,350
	Bullcreek pathway, per bid	77,992
	Road resurfacing, per bid	101,241

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the hanger improvements, Bullcreek pathway project and road resurfacing transactions with Henningsen Construction do not appear to represent a conflict of interest since they were competitively bid.

However, the street department door, the hot mix asphalt and cold patch asphalt transactions appear to represent conflicts of interest in accordance with Chapter 362.5(3)(j) of the Code of Iowa since they were not competitively bid and were greater than \$1,500 during the year.

Recommendation – The City should advertise for competitive bids or quotes for all transactions with Henningsen Construction which are over \$1,500 for the fiscal year.

Response – The City will obtain competitive bids or quotes for all transactions with Henningsen Construction over \$1,500.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Atlantic

Schedule of Findings

Year ended June 30, 2012

- (8) Revenue Bonds – The City made transfers to the Debt Service Fund for the purpose of making bond principal and interest payments on the sewer revenue bonds when due. The City has not established or funded a sewer revenue bond sinking account within the Enterprise, Sewer Fund as required by the sewer revenue bond resolution.

Recommendation – The City should establish and ensure monthly transfers are made to a sewer revenue bond sinking account as required.

Response – The City has corrected this for fiscal year 2013.

Conclusion – Response accepted.

- (9) Economic Development – The City provides funding to Cass/Atlantic Economic Development and to the Atlantic Chamber of Commerce. In accordance with Chapter 15A of the Code of Iowa, the City is providing oversight of these funds to determine the funds are being spent in accordance with the agreements and expenses meet the test of public purpose.
- (10) Financial Condition – The City disbursed \$8.9 million for construction of a wastewater treatment plant during the year. Project receipts available during the year consisted of an IJOBS grant of \$409,550 and proceeds from the State Revolving Fund Loan (SRF Loan) program through the Iowa Finance Authority of \$2,797,185. Although the City had an additional \$8 million in SRF Loan funds available to be drawn, funds were not drawn by June 30, 2012, resulting in a deficit balance of \$3,650,899 in the Enterprise, Sewer Fund.

Recommendation – The City should draw down the necessary loan funds from the SRF Loan program to eliminate this deficit to return this fund to a sound financial position.

Response – Instead of drawing down from the SRF Loan program as construction costs were incurred for the new wastewater treatment plant, the City chose to utilize cash reserves, thus saving over \$100,000 in interest costs. The project is near completion and the remaining funds will be drawn down, thus eliminating the negative balance.

Conclusion – Response accepted.

City of Atlantic

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Brooke A. Robb, Staff Auditor
Brandon J. Vogel, Staff Auditor
Jesse J. Probasco, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State